

CITY STORES COMPANY

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CORPORATION FILE

Annual Report

Fiscal year ended January 31

1959



BOARDS
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Department Stores

LIT BROTHERS

Bernard Litvak, *Executive Head*

PENNSYLVANIA:

Philadelphia
69th Street (Upper Darby)
Northeast Philadelphia
Morrisville

NEW JERSEY:

Trenton
Camden

MAISON BLANCHE

Isidore Newman, II, *President*

LOUISIANA:

New Orleans
Carrollton
Gentilly
Airline Highway
West Side

LOVEMAN, JOSEPH & LOEB

O. W. Schanbacher, *President*

ALABAMA:

Birmingham
Montgomery
Bessemer

LANSBURGH'S

Ralph L. Goldsmith, *President*

DISTRICT OF COLUMBIA:

Washington

MARYLAND:

Langle Park

VIRGINIA:

Arlington (Shirlington)*

B. LOWENSTEIN

Stanley H. Fried, *President*

TENNESSEE:

Memphis
Lowenstein's East
Lowenstein's South
Lowenstein's Home Service

RICHARD'S

FLORIDA:

Miami
163rd Street (North Miami)

KAUFMAN STRAUS

Robert L. Schuss, *President*

KENTUCKY:

Louisville
Dixie Manor*
Shelbyville**

BRY-BLOCK

Bernard Pincus, *President*

TENNESSEE:

Memphis

R. H. WHITE

Harold Broomfield, *Manager*

MASSACHUSETTS:

Worcester

HEARN'S

Gordon K. Greenfield, *President*

NEW YORK:

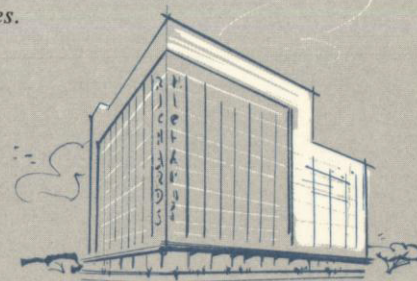
Bronx

CITY STORES COMPANY

...operating 29 department stores,

2 junior department stores

and 46 specialty stores.



Specialty Stores

Gordon K. Greenfield, *President*

FRANKLIN SIMON

CONNECTICUT:

Westport

DISTRICT OF COLUMBIA:

Washington

FLORIDA:

Miami Beach
Fort Lauderdale*

GEORGIA:

Atlanta
Lenox Square*

MASSACHUSETTS:

Boston

MICHIGAN:

Detroit
Northland Center
Eastland Center

MISSOURI:

Crestwood
Clayton

NEW JERSEY:

East Orange
Eatontown**

NEW YORK:

New York City
Garden City
Manhasset

NORTH CAROLINA:

Charlotte**

OHIO:

Cincinnati—downtown
and Swifton

Cleveland

TENNESSEE:

Memphis

VIRGINIA:

Seven Corners

OPPENHEIM COLLINS

Julian N. Trivers, *Executive Head*

DELAWARE:

Wilmington

MARYLAND:

Baltimore—downtown and Mondawmin
Harundale Center
Towson Center*

NEW JERSEY:

East Orange
Hackensack
Haddonfield
Menlo Park*
Morristown
Paramus

NEW YORK:

New York City
Buffalo—downtown and Thruway Plaza
Bay Shore
Cross County
Hicksville
Huntington
Valley Stream
Roosevelt

PENNSYLVANIA:

Philadelphia
Germantown
Willow Grove

KLINE'S

George J. Duchossois, *General Manager*

MISSOURI

Kansas City—downtown
and Ward Parkway**

*To be opened during 1959

**To be opened during 1960

DIRECTORS

GUSTAVE G. AMSTERDAM
JAMES H. BECKER
MURRY C. BECKER
DAVID BORTIN
HAROLD W. BRIGHTMAN
FRANKLIN F. BRUDER
J. J. CAPRANO
RALPH L. GOLDSMITH
ALBERT M. GREENFIELD
BRUCE H. GREENFIELD
GORDON K. GREENFIELD
JOSEPH A. W. IGLEHART
GEORGE H. JOHNSON
WILLIAM F. KELLY
ISIDORE NEWMAN, II
MAX ROBB
J. BENSON SAKS
O. W. SCHANBACHER
ROBERT L. SCHUSS
SERGE SEMENENKO

OFFICERS

GUSTAVE G. AMSTERDAM, Chairman of the Board
GORDON K. GREENFIELD, Vice Chairman of the Board
MAX ROBB, President
FRANKLIN F. BRUDER, Executive Vice President and Treasurer
ISIDORE NEWMAN, II, Senior Vice President
HAROLD W. BRIGHTMAN, Vice President
RALPH L. GOLDSMITH, Vice President
LESTER HANO, Vice President
BERNARD LITVAK, Vice President
O. W. SCHANBACHER, Vice President
IRVING J. ZIPIN, General Attorney and Assistant Secretary
J. KARL FISHBACH, Controller and Assistant Treasurer
MILTON A. KAMSLER, Secretary

TRANSFER AGENT The Chase Manhattan Bank, New York, N. Y.
REGISTRAR Chemical Corn Exchange Bank, New York, N. Y.
COUNSEL Folz, Bard, Kamsler, Goodis & Greenfield, Philadelphia, Pa.
AUDITORS S. D. Leidesdorf & Co., New York, N. Y.

CITY STORES COMPANY



CORPORATION OFFICE 320 Bankers Securities Building • Philadelphia, Pa.
NEW YORK BUYING OFFICE City Stores Mercantile Co., 132 W. 31st St., New York, N. Y.

ANNUAL MEETING

May 20, 1959 • 11 A.M. (D.S.T.)
100 W. 10th Street, Wilmington, Delaware

April 29, 1959

To the Stockholders:

The 1958 fiscal year of the Company which ended January 31, 1959, resulted in reduced earnings. Following the pattern of general business conditions in the United States and, in particular, in the specialty store field, the Company's sales were lower in the first half of 1958 than in the corresponding period of 1957. In the second half of the year, sales increased but profits in this period were insufficient to produce an annual profit equal to the prior year.

For the past fiscal year, sales amounted to \$269,000,000, compared with \$264,000,000, an increase of \$5,000,000, or 2.0% over the preceding year. Income after taxes amounted to \$2,308,000 this year and, after preferred stock dividends, was equal to \$.90 per share of common stock. This compares with \$3,340,000 of income in the prior year, or \$1.31 per share of common stock.

Dividends on common stock totaling \$1.30 per share were declared during the year, as compared with \$1.40 the previous year. In view of the reduced earnings and the program of expansion and improvement of facilities for the future of the Company, the Board of Directors on January 6, 1959 reduced the quarterly dividend from \$.35 per share to \$.25 per share of common stock. On April 7, 1959 the Board of Directors declared a dividend of \$.25 per share on its common stock, being the Company's fifty-ninth consecutive quarterly dividend. At the close of the year, the outstanding preferred stock was redeemed, leaving the common stock as the sole outstanding class of stock.

The Company's financial condition remains strong. Cash and working capital are adequate and the ratio of current assets to current liabilities is 2.9.

The program of expansion and modernization has continued during the past year. We opened or executed leases for fourteen new store units. Of these, three related to our department stores and eleven to our specialty store division. Two major suburban units are planned for our Kaufman Straus store in Louisville, and a lease has been signed for the first branch of the Kline Kansas City store. Modernization and renovation of the Maison Blanche downtown store in New Orleans and of the Oppenheim Collins 34th Street, New York City store were completed during the past year. Our Lansburgh downtown unit is presently undergoing substantial improvement with the installation of modern lighting and escalators. Reference is made to a fuller review of store expansion and operations in the section entitled "Review of Operations" elsewhere in this report.

Within the past several weeks Albert M. Greenfield, founder and Chairman of the Board of Bankers Securities Corporation and Chairman of the Board of your Company since 1932, relinquished these offices in order that he might retire from active business life. Gustave G. Amsterdam was elected to fill these positions. It is with deep regret that the Boards of Directors of both companies acceded to Mr. Greenfield's

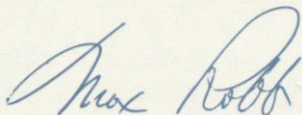
wish but it was with the feeling, however, that we shall be able to call upon his wise counsel and be assured of his continuing interest in the Company. Mr. Greenfield will remain as a director of the Company. Mr. Amsterdam, fifty years of age, continues as President of Bankers Securities Corporation, with which he has been associated in executive capacities since 1946. He has been a director of your Company since 1940 and of its major subsidiaries for some years, and is familiar with the policies, programs and operations of the Company and its units.

During the year other important organization changes took place. Bruce H. Greenfield, Vice President of Bankers Securities Corporation, was elected a member of the Board of Directors and Lester Hano, formerly Executive Head of the Oppenheim Collins division, became Vice President in charge of expansion of City Stores Company, a new position. Julian N. Trivers was named Executive Head of the Oppenheim Collins division and Vice President and Director of City Specialty Stores, Inc., replacing Mr. Hano. William S. Darrow was elected a Vice President of City Stores Mercantile Co., continuing in charge of research and operations. Paul L. Dowd, Vice President and General Merchandise Manager of Lansburgh's, was appointed to a similar position with Loveman, Joseph & Loeb, and Louis M. Frankel was named to the position vacated by Mr. Dowd. Max Gold was appointed Vice President and General Merchandise Manager of our B. Lowenstein subsidiary. James H. Kelly was named Controller of Lit Brothers in Philadelphia.

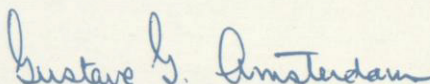
We are sorry to note the untimely and sudden death of Ludwig Hecht who was Vice President and General Manager of our Hearn store in the Bronx. Mr. Hecht served the Company faithfully and efficiently for more than twenty years. His loss will be deeply felt.

Once again, we record our thanks to our business associates, executives and employees who, together with our customers and vendors, have played an important part in the total operations and development of the Company.

Respectfully submitted,



PRESIDENT



CHAIRMAN OF THE BOARD

Highlights



OPERATIONS*

	January 31, 1959 (52 Weeks)	February 1, 1958 (52 Weeks)
Net sales	\$268,964,000	\$263,747,000
Income before federal income taxes	5,058,000	6,540,000
Federal income taxes	2,750,000	3,200,000
Net income	2,308,000	3,340,000
Income applicable to common stock	2,272,000	3,298,000
Income per common share	0.90	1.31

DIVIDENDS

Preferred stock	36,000	42,000
Common stock	3,282,000	3,534,000
Per share of preferred stock	4.25	4.25
Per share of common stock	1.30	1.40

FINANCIAL

Current assets	99,943,000	96,495,000
Current liabilities	34,263,000	30,285,000
Working capital	65,680,000	66,210,000
Current ratio	2.9	3.2
Accounts receivable	62,299,000	60,992,000
Bank remittances on portion of receivables	<i>12,283,000</i>	<i>12,871,000</i>
Inventories	27,892,000	31,996,000
Property and equipment—net	39,505,000	28,117,000
Long term debt	32,336,000	32,371,000
Ownership	61,755,000	63,983,000
Preferred stock	—	882,000
Common stock equity	61,755,000	63,101,000
Common stock equity per share	24.46	24.99
Number of shares outstanding		
Preferred stock—at end of year	—	8,819
Common stock—average during year	2,525,000	2,524,000
Common stock—at end of year	2,524,553	2,524,567

*Exclusive of extraordinary items which did not result from the usual or typical business operations of the periods and have been credited or charged to income reinvested in business or to reserves.

Italics denote deductions.

Review of Operations

SALES

Consolidated net retail sales for the fiscal year ended January 31, 1959 amounted to \$268,964,000, an increase of \$5,217,000 over the prior fiscal year, or 2.0%. Sales volume in comparable main and branch stores for the respective years showed a decrease of \$6,824,000, or 2.7%. Sales in stores acquired or opened during either of the past two years, after deducting sales in stores closed in the period, amounted to \$12,041,000.

The general business decline which began in 1957 and continued into 1958 was reversed in the second half of 1958. The Company's sales per quarter were as follows:

	1958	1957	
First quarter	\$60,444,000	\$63,352,000	4.6% decrease
Second quarter	56,049,000	56,582,000	.9% decrease
Third quarter	66,046,000	62,696,000	5.3% increase
Fourth quarter	86,425,000	81,117,000	6.5% increase

INCOME

Income before federal income taxes amounted to \$5,058,000 for the past fiscal year, a decrease of \$1,482,000 from that of the previous year. Provision for federal income taxes was \$2,750,000 and \$3,200,000 for the respective fiscal years. Net income after federal income taxes amounted to \$2,308,000 for the past fiscal year, compared with \$3,340,000 for the prior fiscal year.

Net income per share of common stock, after all charges and dividends paid on preferred stock, was \$.90 per share, compared with \$1.31 per share on common stock last year. As noted, the common stock is the sole outstanding class of stock of the Company.

DIVIDENDS

Quarterly dividends were paid on the outstanding preferred stock, amounting to \$27,500 for the first three quarters of the year, and during the fourth quarter the remaining 7,880 shares were redeemed at \$102.0625, including accrued dividends of \$1.0625. Quarterly dividends on the common stock amounted to \$3,282,000 for the past year and were \$.35 per share during each of the first three quarters and \$.25 per share in the fourth quarter. As mentioned in the letter of the Chairman and the President, it was considered prudent to reduce the dividend on the common stock in view of the lower earnings and the desirability of maintaining our program of expansion and development for the future welfare of the Company.

At the meeting of the Board of Directors held April 7, 1959, a quarterly dividend

of \$.25 per share was declared on the Company's common stock, payable May 1, 1959. This dividend will represent payments of fifty-nine consecutive quarterly dividends since 1944.

TAXES

Federal, state, and local taxes during the year aggregated \$7,300,000, equivalent to \$2.89 per share of common stock. This compares with \$7,100,000 in the aggregate and \$2.82 per share of common stock the previous year.

WORKING CAPITAL

At January 31, 1959, the end of the fiscal year, current assets amounted to \$99,943,000, current liabilities \$34,263,000 or working capital of \$65,680,000 and a current ratio of 2.9. The year before, working capital amounted to \$66,210,000, with a current ratio of 3.2. Cash and marketable securities amounted to \$19,576,000, an increase over the previous year of \$5,540,000. Accounts receivable, after allowances for doubtful accounts but before bank financing, increased from \$60,922,000 a year ago to \$62,299,000 this year. After deducting the bank financing, accounts receivable increased from \$48,051,000 last year to \$50,016,000 at the end of this year.

Merchandise inventories, priced principally at LIFO cost and partly at the lower of cost or market, decreased from \$31,996,000 last year to \$27,892,000. This reflects significant efforts to clean stock and bring composition and complexion of inventory in line with the needs of the business and demands of customers. The increase in accounts payable and accrued and sundry liabilities of \$2,319,000 is occasioned principally by the inclusion of our new operating unit, Kline's, Incorporated. Short term borrowings from banks at year end decreased by \$1,150,000 to \$3,100,000.

Expenditures for plant construction, leasehold improvements and furniture and fixtures for the year 1958 amounted to \$3,000,000, as compared with \$4,500,000 the previous year. Funds for the expansion program will be derived in part from mortgage financing of real estate owned by unconsolidated subsidiaries, totaling \$2,300,000. In addition, Diversified Stores Corporation sold for \$2,751,000 its right to receive rents totaling \$2,890,000 under leases held by it, payable within the next two years. These rents pertain to leases with City Stores Company covering three of our southern stores and with other tenants of the Maison Blanche office building.

OPERATIONS AND EXPANSION

Maison Blanche in New Orleans, Louisiana, taking advantage of the six-story building addition of 78,000 square feet of space in its downtown store, remodeled and refitted many departments and floors, with emphasis on fashion appeal, including a new floor of fashions for the home and a larger and newer store for men. These improvements met with enthusiastic customer response, enabling Maison Blanche to increase its dominant position in the department store field in the greater New Orleans area. Maison Blanche celebrates its Golden Anniversary during 1959.

Loveman, Joseph & Loeb in Birmingham, Alabama, with its branches in Montgomery and Bessemer, gave impetus to its fashion leadership through an Italian Bazaar and Fair and an annual city-wide "Fashion Week" celebration which included a Fashion Awards Show for excellence in fashion design.

Richards, in Miami, Florida, and its successful suburban unit at the 163rd Street shopping center, continue a program of popular-price merchandising to meet the needs of the growing influx of new homemakers and industry in the Florida markets.

In Memphis, Tennessee, the B. Lowenstein operation, with one branch in Whitehaven Shopping Center and another suburban unit in the active Poplar Highland Shopping Center has a history of over 100 years of service to the people of this important hub of the South. Plans for a completely new Lowenstein operation in downtown Memphis, now in final stages, will result in a central city store containing all the modern service facilities and techniques developed in recent years in our many excellent suburban locations.

Our Bry Block unit in Memphis has taken important steps in improvement of its plant and facilities. A new beauty salon was opened and many departments of the store were modernized. The new Civic Center is to be constructed just one block north of the store and will contain a new Federal Building, City Hall and State Office Building. In addition, the area parking facilities have been substantially increased.

A decision to invest in and enhance our Kaufman Straus operation in Louisville, Kentucky, has been demonstrated by the signing of two leases for suburban units in outlying Louisville. The first to open will be a 60,000 square foot store on one level in the Dixie Manor Center, south of Louisville, and the second will be an 80,000 square foot store on two levels in a major shopping center to be developed at the intersection of Shelbyville Road and Waterson Expressway, eight miles east of the downtown store of Kaufman Straus. This center will consist of 67 acres and will be of the closed mall type, heated and air conditioned throughout all seasons. The Dixie Manor store will open on October 1, 1959, and the Shelbyville store a year later. Studies are also presently in progress for further expansion of the Company's downtown store.

In Washington, D. C., our Lansburgh store continues to enjoy successful operations through its Langley Park suburban unit and is planning an important opening for its second branch store in Shirlington Center, Arlington, Virginia in October of this year. The downtown store has completed the installation of a modern hung ceiling on the first floor, providing modern lighting and complete concealment of air ducts. Increased production of areas was accomplished throughout the store through more efficient fixture arrangements and replacements. Vertical space was put to better advantage, and self selection fixtures were made more adaptable for consumer convenience. A major step in the downtown store rehabilitation and improvement program is the installation of escalators now in construction, to be in operation by August of this year. Lansburgh's celebrates its 100th Anniversary in 1960, and appropriate plans are in the making for this occasion.

Our largest unit, Lit Brothers in Philadelphia, with its three branches in the Philadelphia environs and two in the Trenton area, has, during the past year, undertaken several programs to combat the effect of business decline in this highly competitive industrial and retail area. Great emphasis has been placed on improvement

of organization and of operations between main store and branches. At the same time merchandising and buying programs have received top priority and Lit Brothers was accorded recognition by Life Magazine in its program to develop better selling of brand name goods, and through the naming of Lit Brothers as the "Brand Name Retailer of the Year for 1958" by the Brand Names Foundation. Plans are also in effect for expansion of the northeast store, which is the largest volume branch within the Lit family. This expansion will aid in improving the composition of volume and serve to meet increasing competition of retail units in this area.

In the Bronx, New York, Hearn's runs a highly promotional unit, with emphasis on value and price. This is done through the medium of low markup and maximum utilization of self-service and self-selection. Great progress has been made in the rehabilitation of the Hearn operation to the extent that management is now investigating a branch unit for the Hearn operation.

Our specialty store group includes the Franklin Simon chain of women's, children's and men's stores and several of the former Kline units, totaling 23 stores in 13 states, spread from Boston to Miami and into the Midwest as far as St. Louis, Missouri. The Oppenheim Collins chain consists of women's and children's stores, primarily centering in the Middle Atlantic states, totaling 23 units in 5 states. The Franklin Simon and Oppenheim Collins operations during the past year suffered from declining business which affected particularly specialty stores throughout the country. Considerable time is being given to the development of improved merchandising skills, organization and methods of operations, the benefits of which should be felt in the ensuing years. Management is constantly reviewing prospective store additions which lend themselves particularly to branch expansion and are primarily located in major suburban centers which have every indication of being well financed and well operated. A few existing stores were closed as they proved to be unprofitable. During the past year, leases have been signed for four additional Franklin Simon units and two additional Oppenheim Collins stores, four of which have been, or will be opened during the current fiscal year.

Improvements to the Oppenheim Collins store in New York City, completed during the past year, included a remodeled main floor and several departments, and escalators installed to the fourth floor. A "doorless air-current door" was installed as a "first" in retail architecture in New York City.

To complement the Kline store in Kansas City, a lease has been signed for an 80,000 square foot store on two levels in Ward Parkway Shopping Center, in the western suburbs of Kansas City. This unit is expected to open in 1960.

NEW YORK BUYING OFFICE

The Company's resident buying and service office for its various units, located in New York City, increased its functions and services during the past year. Included among these is the establishment of a jobbing division, expansion of the foreign import program, and the creation of a central dress operation, all of which contribute to improved merchandising efforts and store results. These and other programs are under way to increase the purchasing power represented by our combined store groups.

Statement of Income

	Year Ended (52 Weeks) January 31, 1959	Year Ended (52 Weeks) February 1, 1958
Net sales (including leased departments)	\$268,964,485	\$263,746,975
Deduct:		
Cost of goods sold and operating expenses less carrying charges	259,149,335	252,894,897
Depreciation and amortization	3,192,733	2,863,658
Interest and debt expense	2,158,611	2,005,301
	<u>264,500,679</u>	<u>257,763,856</u>
	4,463,806	5,983,119
Net income of unconsolidated subsidiaries— (depreciation of \$802,815 and \$790,891, respectively, deducted)—Note A:		
Distributed as dividends	206,285	398,000
Undistributed	93,300	81,031
Miscellaneous other income	210,190	191,126
Minority share of net loss or <i>income</i> of certain subsidiaries	<u>84,700</u>	<u>113,521</u>
Income before federal income taxes	5,058,281	6,539,755
Federal income taxes—Note F	<u>2,750,000</u>	<u>3,200,000</u>
Net income	<u>\$ 2,308,281</u>	<u>\$ 3,339,755</u>

Exclusive of extraordinary items which did not result from the usual or typical business operations of the period and have been credited or charged to income reinvested in business or to reserves. (See Note H)

Italics denote deductions.

See notes to financial statements, pages 13 through 15.

Statement of

ASSETS**CURRENT ASSETS**

	January 31, 1959	February 1, 1958
Cash	\$ 19,222,661	\$ 13,992,897
Marketable securities—at cost (approximate market)	353,366	43,317
Accounts receivable, customers and others, including amounts assigned to banks less amounts received from banks under agreements; less allowances for doubtful accounts of \$2,782,284 and \$3,303,275, respectively—Note B	50,015,850	48,050,889
Merchandise inventories—Note C	27,891,725	31,995,929
Supplies and prepaid expenses	2,459,279	2,411,624
TOTAL CURRENT ASSETS	99,942,881	96,494,656

INVESTMENTS AND OTHER ASSETS

Investments in and net receivables from unconsolidated subsidiaries—Note A and see page 12	2,977,420	2,323,583
U.S. Government securities deposited as security under leases	291,851	118,720
Mortgages receivable, sundry investments and other items—Note D	1,338,058	883,268
Refundable income and excess profits taxes of prior years	242,124	180,367
Suspense	—	933,725
	<u>4,849,453</u>	<u>4,439,663</u>

PROPERTY AND EQUIPMENT—Notes E and H

Land, buildings, leaseholds, fixtures and equipment—at cost	63,328,398	44,746,280
Less accumulated depreciation and amortization	23,823,437	16,628,917
	<u>39,504,961</u>	<u>28,117,363</u>

UNAMORTIZED DEBT EXPENSE	202,239	201,227
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	<u>\$144,499,534</u>	<u>\$129,252,909</u>
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Financial Condition

LIABILITIES

CURRENT LIABILITIES

	January 31, 1959	February 1, 1958
Accounts payable, accrued and sundry liabilities	\$ 19,342,592	\$ 17,023,552
Federal income taxes—Note F	8,817,910	6,906,012
Notes payable to bank	3,100,000	4,250,134
Current portion of long term debt and mortgages not assumed—Note D	3,002,577	2,105,250
TOTAL CURRENT LIABILITIES	34,263,079	30,284,948

LONG TERM DEBT (other than mortgages not assumed)

—Note G	32,336,000	32,370,617
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RESERVES—Note H	1,826,535	774,899
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DEFERRED FEDERAL INCOME TAXES—Note F	1,484,300	962,800
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MORTGAGES NOT ASSUMED—Note E	10,459,015	—
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DEFERRED CREDIT AND OTHER ITEM—Note I	1,742,000	—
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MINORITY INTERESTS

Preferred stock (par value)	175,150	184,600
Common stock equities	458,745	692,055
	633,895	876,655

OWNERSHIP—Note J

Preferred stock—\$100 par value; 4¼ % convertible	—	881,900
Common stock—\$5 par value—authorized 3,000,000 shares; outstanding 2,524,553 shares (after deducting 12,423 shares in treasury)	12,622,766	12,622,833
Other capital	18,512,208	18,403,593
Income reinvested in business—Note G	30,619,736	32,074,664
	61,754,710	63,982,990
	\$144,499,534	\$129,252,909

Statement of Income Reinvested in Business

	Year Ended (52 Weeks) January 31, 1959	Year Ended (52 Weeks) February 1, 1958
Balance at beginning of year	\$32,074,664	\$35,417,038
Net income for the year	2,308,281	3,339,755
	<u>34,382,945</u>	<u>38,756,793</u>
<i>Charges</i> and credits for extraordinary items which did not result from the usual or typical business operations of the period:		
Loss on fixtures and equipment of vacated premises	237,106	
Disposition of 1957 suspense item, less applicable federal income tax reduction	245,872	
Termination of R. H. White Boston store		1,833,116
Adjustments relating principally to income taxes		1,275,796
Minority share	37,509	3,114
	<u>445,469</u>	<u>3,105,798</u>
	<u>33,937,476</u>	<u>35,650,995</u>
Dividends paid:		
Preferred stock—\$4.25 per share (including \$1.0625 paid on redemption—Note J)	35,824	42,028
Common stock—\$1.30 and \$1.40 per share, respectively	3,281,916	3,534,303
	<u>3,317,740</u>	<u>3,576,331</u>
Balance at end of year—Note G	<u>\$30,619,736</u>	<u>\$32,074,664</u>

Italics denote deductions.

See notes to financial statements, pages 13 through 15.

Summary of Net Assets—Note A Unconsolidated Real Estate Subsidiaries—Combined

	January 31, 1959	February 1, 1958
Land, buildings, leaseholds and equipment, less depreciation (includes unoccupied premises of R.H.White Boston store)	\$11,682,613	\$21,488,519
Mortgages and loan payable—current portions \$352,834 (current year) and \$815,650 (last year)	9,376,524	20,151,092
	<u>2,306,089</u>	<u>1,337,427</u>
Other assets, including cash and due from tenants of \$92,255 (current year) and \$231,236 (last year)	1,042,040*	1,651,037
	<u>3,348,129</u>	<u>2,988,464</u>
Accounts payable and federal income taxes	370,709	664,881
Net assets	<u>\$ 2,977,420</u>	<u>\$ 2,323,583</u>
Consisting of:		
Intercompany accounts with parent companies—net	\$ 2,054,447	\$ 1,277,999
Capital stocks and surplus	922,973	1,045,584
	<u>\$ 2,977,420</u>	<u>\$ 2,323,583</u>

*Includes a second mortgage of \$621,435 which is subordinate to a first mortgage payable of \$780,033 on which one of these subsidiaries remains contingently liable.

Leases:

The minimum annual rentals upon real property leased to unconsolidated subsidiaries under leases expiring more than 3 years from January 31, 1959, amounted to approximately \$400,000. Six of these leases, with an aggregate minimum annual rental of approximately \$184,000 have been guaranteed by consolidated subsidiaries of City Stores Company. Certain leases provide for payment of additional rental based on a percentage of sales (related to premises occupied by parent or consolidated subsidiaries) over a fixed amount, and for taxes, insurance or other charges.

Notes to Financial Statements

The accompanying financial statements as at and for the year (52 weeks) ended February 1, 1958, have been included for comparative purposes only. Reference should be made to the previously issued annual report for the Accountants' Report and notes relating to such statements.

A — PRINCIPLES OF CONSOLIDATION

The accounts of all subsidiaries are included in the accompanying consolidated financial statements, except those of certain real estate subsidiaries, the investments in which are included in the accompanying statement of financial condition at amounts equal to the net assets of such subsidiaries. A summary of such net assets is set forth on page 12. The current year's financial statements include since January 10, 1959, the net assets and related operating accounts of three unconsolidated real estate subsidiaries liquidated during the year. (See Note E.)

B — ACCOUNTS RECEIVABLE FINANCING

The Company has agreements with various banks which provide, in effect, for a form of revolving credit under which specific accounts receivable are assigned to the banks, and the banks remit amounts equal to 90% of the accounts assigned, withholding 10% of the uncollected balances. Under the agreements, the Company accepts reassignment of any accounts in default (as defined) as long as it continues to assign accounts. The following is a summary of accounts financed:

	This Year	Last Year
Accounts receivable assigned	\$13,648,242	\$14,300,588
Less amounts remitted by banks	12,283,418	12,870,529
Net amount included in accounts receivable	<u>\$ 1,364,824</u>	<u>\$ 1,430,059</u>

C — MERCHANDISE INVENTORIES — Determined under Retail Method

Merchandise inventories, as summarized below, are priced principally at LIFO cost and partly at the lower of cost or market. The inventories priced at LIFO cost would be approximately \$4,776,000 more for this year and \$4,835,000 more for last year if they had been priced at the lower of cost or market.

	This Year	Last Year
At LIFO cost	\$22,082,993	\$26,558,427
Less allowance for discounts, etc.	482,175	577,447
	21,600,818	25,980,980
At lower of cost or market	6,290,907	6,014,949
	<u>\$27,891,725</u>	<u>\$31,995,929</u>

D — MORTGAGES RECEIVABLE

A mortgage receivable of \$248,188 (noncurrent amount \$239,937) has been assigned as additional collateral for a mortgage payable of \$306,966 due September 1, 1959.

E — ACQUISITION OF REAL ESTATE

During the year a consolidated subsidiary (in exchange for 502,730 shares of its participating preferred stock) acquired from three unconsolidated subsidiaries liquidated during the year, all of their net assets, including real estate (principally store properties rented to the Company) subject to mortgages, which at January 31, 1959 amounted to \$10,971,626, and to related leases, which had been assigned as collateral for the mortgages. Neither the Company nor the consolidated subsidiary is liable on the mortgage notes but the Company has guaranteed to January 9, 1962 the payments of the mortgage principal installments aggregating \$1,572,882 and interest. Of these installments \$512,611 is included in current liabilities. (Refer to Note H for information related to other current year acquisitions of property and equipment.)

F — FEDERAL INCOME TAXES

The provision for federal income taxes is approximately \$250,000 less than would have been required if certain operating loss carryovers and charges to reserves had not been available as deductions from taxable income.

F—FEDERAL INCOME TAXES (Continued)

The deferred federal income taxes of \$1,484,300 represent the cumulative estimated amount which may be payable in future years resulting from deducting more depreciation for tax purposes, as permitted by the Internal Revenue Code, than the amount included in the accounts.

The accompanying financial statements are subject to final determination of federal, state and local taxes.

G—LONG TERM DEBT (other than mortgages not assumed)

Long term debt is summarized as follows:

	This Year	Last Year
Notes payable	\$28,900,000	\$28,300,000
4% sinking fund debentures (subordinated)—payable		
\$300,000 annually	3,300,000	3,600,000
Mortgages payable (other than mortgages not assumed)	136,000	470,617
	<u>\$32,336,000</u>	<u>\$32,370,617</u>

Maturities of notes payable under loan agreements with The Prudential Insurance Company of America and The First National Bank of Boston aggregate \$1,900,000 annually from 1959 to 1970, and the balance of \$5,500,000 is due in 1971. In addition a term loan of \$2,500,000 from The First National Bank of Boston is payable in 1960 to 1963. The loan agreements provide, among other things, for (1) the maintenance of minimum consolidated working capital of \$50,000,000, (2) restrictions on the purchase, redemption or other acquisition of either class of the Company's stock, except preferred stock as may be necessary to meet the sinking fund requirements, and (3) restrictions on the payment of cash dividends on the Company's common stock. Of the aforementioned restrictions, (2) and (3) above are not in effect as at January 31, 1959, having been waived by the holders of the notes until February 2, 1959. After February 2, 1959, the holders of the notes have agreed that, notwithstanding the computed amount available under a formula in the agreements as it pertains to the restrictions set forth in (3) above, the Company may pay dividends which will not exceed for the year 1959 (ending January 30, 1960) \$1.00 per share or for the year 1960 (ending January 28, 1961) more than 70% of consolidated net earnings of the year 1959. The amount of any dividends which may be paid during the years 1959 and 1960 are to be included in any subsequent computation under the formula in the agreements pertaining to such restrictions.

H—RESERVES

The reserves are provided for the following:

	This Year	Last Year
For restoration of leased properties—Note K	\$ 441,899	\$ 441,899
For termination of store operations	500,000	333,000
For integration costs	137,663	—
For excess rentals	746,973	—
	<u>\$ 1,826,535</u>	<u>\$ 774,899</u>

The reserve for termination of store operations consists of \$200,000 (net of applicable expected federal income tax reduction) for continuing expenses at the location of the store closed in 1957 and \$300,000 applicable to stores of a subsidiary acquired during the current year as mentioned in the next paragraph.

During the year a subsidiary acquired substantially all of the capital stock of a retail specialty store chain whose net assets applicable thereto as shown by its books at date of acquisition, exceeded the cost of acquisition by \$3,313,839. Such net assets were adjusted to the acquisition cost of the capital stock, based on management's evaluation of the various factors related to the integration of that chain's operations with those of another of the Company's subsidiaries, and, with respect to values of real estate and long term leases, on an independent appraisal report. Accordingly, marketable securities were reduced by \$13,000 to market quotation, fixed assets were adjusted by \$1,658,136 to the cost ascribed thereto and reserves of \$1,642,703 were provided for anticipated cost of store terminations, for the cost of integration, and for the estimated amount of future rent payments under long term leases in excess of their related fair value.

I—DEFERRED CREDIT AND OTHER ITEM

This amount arose in connection with a transaction in which a subsidiary sold during the current year its right to receive rentals from certain of its tenants within the two years ending January 28, 1961. The amount of rent payable by the Company during the year ending January 30, 1960 (pertaining to this transaction) is included in current sundry liabilities. The deferred credit and other item includes \$1,120,000 payable as rent by the Company in the year following January 30, 1960, and \$622,000 payable by other tenants during the two years.

J — OWNERSHIP

On January 30, 1959, the Company redeemed the balance of its outstanding 4¼ % convertible preferred stock at \$101.00 per share plus accrued dividends of \$1.0625. Accordingly the 4¼ % convertible preferred stock is no longer issued or outstanding and 29,036 shares of the original authorization of such stock remain unissued.

The increase of \$108,615 in other capital during the year results principally from a reduction of minority interest in connection with the acquisition of property by a subsidiary in exchange for its stock. (See Note E)

K — CONTINGENCIES AND OTHER COMMENTS

The minimum annual rentals upon real property leased to the Company and its consolidated subsidiaries under leases (exclusive of intercompany leases) expiring more than three years from January 31, 1959, amounted to approximately \$4,300,000. Certain of these leases also provide for payment of real estate taxes, insurance, additional rental based on a percentage of sales over a fixed amount, or other charges. Reference is made to summary of net assets of unconsolidated real estate subsidiaries for additional minimum rentals payable under leases of such subsidiaries.

Certain leases provide for the restoration of the related properties to their original condition, in connection with which, upon vacating such properties, there may be incurred costs in an amount presently indeterminable. Accordingly, no provision has been made in the accounts for such costs, except as to \$441,899 (included in the tabulation of reserves in Note H) recorded on the acquisition of a subsidiary in a prior year.

Commitments for and anticipated acquisition (under an option held by a subsidiary) of property and equipment aggregate approximately \$3,900,000.

Subsequent to January 31, 1959 the Company transferred or plans to transfer property and equipment to unconsolidated subsidiaries, which subsidiaries have completed or anticipate completing mortgage financing on the related properties in the aggregate amount of approximately \$1,300,000.

S. D. LEIDESDORF & CO.

CERTIFIED PUBLIC ACCOUNTANTS

NEW YORK, N. Y.

ACCOUNTANTS' REPORT

To the Board of Directors
City Stores Company
Philadelphia, Pennsylvania

We have examined the consolidated statement of financial condition of City Stores Company and consolidated subsidiaries as at January 31, 1959, and the related consolidated statements of income and income reinvested in business for the year (52 weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated statement of financial condition and consolidated statements of income and income reinvested in business, together with the notes to financial statements, present fairly the consolidated financial position of City Stores Company and consolidated subsidiaries at January 31, 1959, and the consolidated results of their operations for the year (52 weeks) then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

S. D. LEIDESDORF & CO.

New York, N. Y.
April 18, 1959

Historical Comparison

	January 31, 1959	February 1, 1958	February 2, 1957	January 28, 1956	January 29, 1955	January 30, 1954
OPERATIONS*						
Net sales	\$268,964,000	\$263,747,000	\$272,119,000	\$251,882,000	\$241,755,000	\$233,227,000
Index of sales	115%	113%	117%	108%	104%	100%
Income before federal income taxes	5,058,000	6,540,000	5,834,000	11,877,000	10,353,000	9,066,000
Federal income taxes .	2,750,000	3,200,000	2,313,000	5,973,000	4,931,000	4,079,000
Net income	2,308,000	3,340,000	3,521,000	5,904,000	5,422,000	4,987,000
Income applicable to common stock	2,272,000	3,298,000	3,471,000	5,662,000	4,980,000	4,510,000
Income per common share	0.90	1.31	1.38	2.49	2.40	2.20
DIVIDENDS						
Preferred stock	36,000	42,000	50,000	242,000	442,000	477,000
Common stock	3,282,000	3,534,000	3,534,000	3,241,000	2,927,000	2,874,000
Per share						
Preferred stock	4.25	4.25	4.25	4.25	4.25	4.25
Common stock	1.30	1.40	1.40	1.40	1.40	1.40
FINANCIAL						
Current assets	99,943,000	96,495,000	106,098,000	110,177,000	96,862,000	88,353,000
Current liabilities . .	34,263,000	30,285,000	32,574,000	31,772,000	26,314,000	24,544,000
Working capital	65,680,000	66,210,000	73,524,000	78,405,000	70,548,000	63,809,000
Current ratio	2.9	3.2	3.3	3.5	3.7	3.6
Accounts receivable . .	62,299,000	60,922,000	67,292,000	66,259,000	56,062,000	48,836,000
Bank remittances on portion of receivables	12,283,000	12,871,000	10,999,000	—	—	—
Inventories	27,892,000	31,996,000	34,904,000	31,417,000	29,559,000	26,663,000
Property and equipment —net	39,505,000	28,117,000	26,755,000	23,161,000	23,566,000	25,524,000
Long term debt	32,336,000	32,371,000	34,610,000	36,560,000	32,768,000	30,242,000
Ownership	61,755,000	63,983,000	67,489,000	65,458,000	63,088,000	61,065,000
Preferred stock	—	882,000	1,068,000	2,402,000	9,014,000	11,182,000
Common stock equity	61,755,000	63,101,000	66,421,000	63,056,000	54,074,000	49,883,000
Common stock equity per share . . .	24.46	24.99	26.31	25.51	25.07	24.29
Number of shares out- standing at end of year						
Preferred stock	—	8,819	10,679	24,019	90,148	111,815
Common stock	2,524,553	2,524,567	2,524,374	2,471,918	2,157,018	2,053,857

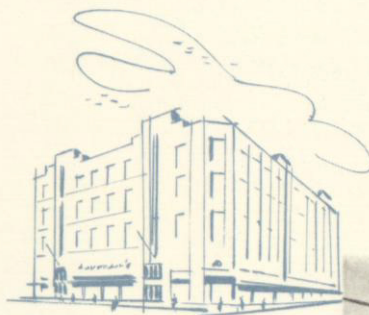
*Exclusive of extraordinary items which did not result from the usual or typical business operations of the last two periods and have been credited or charged to income reinvested in business or to reserves.

Italics denote deductions.

"FASHION IS OUR FUTURE"



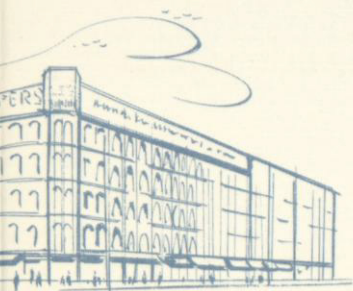
CITY STORES is intensifying its efforts for fashion dominance in all phases of operations to enhance the appeal of its stores — by improved merchandising and promotional techniques and continued modernization of facilities . . .



. . . with new emphasis on women's apparel and accessories . . .

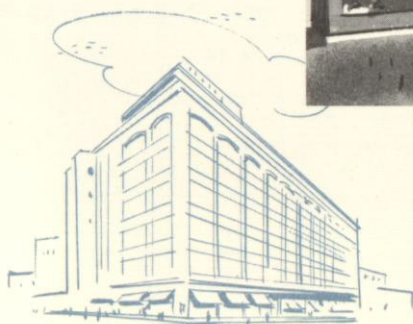


. . . in meeting the ever growing children's market . . .



. . . by fresh styling in men's wear . . .

. . . through coordinated furnishings for the home . . .



CITY STORES COMPANY

...operating 77 retail units in 19 states

